



# IDAHO LEGISLATURE BUDGET WATCH

November 2003

## Legislative Services Office, Budget & Policy Analysis

### Big Picture Update; more good news

October revenue collections exceeded DFM's revised forecast by \$3.4 million, bringing the fiscal year to date collections \$19.8 million ahead of the forecasted amounts (line #5 below). This puts the estimated year-end balance for FY 2004 at about \$62.5 million (see line 15 below). As we noted last month, however, the surplus scenario is due entirely to the one-time federal relief package, which includes \$50 million in revenues and about \$30.4 million in Medicaid match reductions. See the back page for details by tax category.

### University of Idaho Plans Deficit Reductions

The University of Idaho has been whittling away on a budget deficit estimated at about \$14 to \$17 million for the past two years and has several more years to go before its financial health is restored. The red ink was caused by internal deficit spending, increasing but unfunded fixed costs, University Place-Boise debts, and recession caused cuts to appropriations and endowment fund distributions. Interim President Gary Michaels has put in place financial controls to prevent future deficit spending and is developing strategies for closing the deficit.

**Deficit Spending:** The biggest in-house contributor to the UI budget challenge is the result of years of deficit

spending by some operating units within the university. The UI manages nearly 5,000 individual accounts that had an FY 2003 year end aggregate cash balance of \$56 million. These accounts have dedicated purposes related to but not including general education for resident students—the annual General Fund appropriation is intended to cover that cost. Due to revenue shortfalls and control deficiencies, a few dozen of these accounts have accumulated deficits totaling over \$11 million. Examples include \$1.5 million for utilities, \$725,000 for the Lionel Hampton Jazz Festival, \$600,000 for the UI Press, and \$400,000 for the Business Technology Incubator in Moscow. The UI also had no choice but to cover internally the \$2.5 million General Fund reversion directed by the Governor's Office last May. Since the UI had exhausted its General Fund moneys by that point in the fiscal year, it had to dip into its non-general education accounts to come up with the required \$2.5 million. The effect was to increase its internal deficit by the reverted amount, bringing the total to \$14 million.

**University Place-Boise:** Issues emanating from the UI's well publicized University Place venture in Boise will have a net total impact on the university's general education budget of about \$3.4 million in FY 2005. Prior to the U-Place problems, the UI Foundation had given the university \$1.8 million annually. *Continued on back.....*

## Fiscal Year 2004

REVENUES		Sine Die Estimate	Current Estimate
1.	Beginning Balance	\$ 6,274,200	\$ 15,745,000
<b>FY 2004 Revenue Estimate</b>			
2.	Baseline revenue estimate*	1,828,700,000	1,793,534,900
3.	Statutory changes (sales tax & others)	183,776,500	184,640,000
4.	Plus federal flexible grant funds	0	50,000,000
5.	July thru Oct. revenues; over/under to date	0	19,800,000
6.	Total General Fund Revenues	\$ 2,018,750,700	\$ 2,063,719,900
7.	Transfer to Democracy Fund	0	(167,000)
8.	<b>Total Revenues Available</b>	<b>\$2,018,750,700</b>	<b>\$2,063,552,900</b>
EXPENDITURES			
9.	<b>Original FY 2004 Appropriations</b>	\$ 2,004,053,000	\$ 2,004,053,000
10.	Reappropriations	0	2,061,300
11.	Supplemental for fire suppression	0	10,285,000
12.	Medicaid caseload & utilization increase	0	14,986,300
13.	One-time federal Medicaid match reduction	0	(30,391,100)
14.	<b>Total Estimated Expenditures</b>	<b>\$ 2,004,053,000</b>	<b>\$ 2,000,994,500</b>
15.	<b>Estimated Ending Balance</b>	<b>\$ 14,697,700</b>	<b>\$ 62,558,400</b>
*Original estimate based on a 4.1% increase before tax law changes; revised estimate based on a 3.2% increase over FY 2003 actual collections, before tax law changes.			

## Monthly Revenue Update

	Total FY04 Forecast*	Forecast % Change from FY03	Actual % Change from FY03	October Actual Collections	October Compared to Forecast	Year-to-Date Actual Collections	Year-to-Date Compared to Forecast
Indiv. Income Tax	\$882.8	5.4%	5.1%	\$72.4	\$4.0	\$272.9	\$14.5
Corp. Income Tax	\$96.7	3.8%	(8.2%)	\$5.0	\$0.3	\$28.3	\$0.8
Sales Tax	\$865.6	23.6%	25.4%	\$77.4	(\$0.8)	\$309.4	\$4.9
Product Taxes	\$45.6	109.6%	106.3%	\$3.8	\$0.0	\$15.6	(\$0.4)
Misc. Revenue	\$137.5	40.9%	123.6%	(\$1.11)	(\$0.0)	\$44.2	(\$0.0)
<b>TOTAL</b>	<b>\$2,028.2</b>	<b>15.9%</b>	<b>18.8%</b>	<b>\$157.4</b>	<b>\$3.4</b>	<b>\$670.5</b>	<b>\$19.8</b>

\*The total forecast of \$2,028.2 million represents DFM's August revised forecast, minus the \$13.4 million distribution to local governments for the repeal of personal property taxes on agricultural equipment, which represents cash that never actually reaches the General Fund.

October revenues exceeded the monthly forecast once again, with overall General Fund collections coming in \$3.4 million above projections. Revenues were driven up by Individual Income Tax collections, which exceeded the October forecast by \$4 million. All other areas of General Fund revenues were within less than \$1 million of the forecasted amounts. This brings total fiscal year collections to date to \$19.8 million ahead of projections, with monthly collections exceeding forecasts in each month since April.

### University of Idaho, continued...

That \$1.8 million will now be used by the Foundation to help retire its U Place-related debts. The university is also facing a \$1 million annual lease payment and an estimated \$600,000 in various operating and contractual obligations associated with the only surviving U Place structure, the Idaho Water Center, which is currently under construction.

**Back Towards the Black :** It is important to recognize that the UI has lost \$14.5 million in reduced General Fund appropriations over the last 24 months and another \$2.5 million in reduced endowments earnings. The UI has made the necessary cuts in response to these budget reductions; administrative units were merged as were academic units, academic offerings were eliminated and 130 permanent positions including a dean and a vice president were cut.

The UI is now focused on eliminating the large internal deficit, and has developed a multi-year plan that will continue through FY 2007. Half of the deficit will be addressed by reducing costs, the other half by increasing revenues. The various colleges and administrative units have been assigned cost reduction/revenue generation targets ranging from 11.5% to 20%. Only the executive and athletics areas were subjected to the 20% targets. All other units were held to 14% or less. The revenue component will look at increasing the number of students and relative fees, recovery of indirect costs on grants & contracts, increased appropriations and hopefully a stock market rebound that will restore endowment earnings. Interim President Michaels has scheduled a November 21 meeting with university leadership to examine concrete proposals for deficit reduction.

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